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Gary M. Jackson
Assistant Administrator for Size Standards
Office of Size Standards
Small Business Administration
409 Third Street, SW
Washington, DC 20416

March 31, 2005

Re: RIN 3245-AF22: Small Business Size Standards and Participation of
Businesses Majority-Owned by Venture Capital Companies

Dear Mr. Jackson:

On behalf of the Blue Ribbon Task Force Nanotechnology (BRTFN), we want to thank you for the opportunity to comment on the Small Business Administration's (SBA) Advance Notice of Proposed Rulemaking (ANPRM). BRTFN is a forty member panel that includes California nanotechnology experts from industry, academia, government, medical research and venture capital. Its subcommittees include Infrastructure and Assets, Education, Research and Development, Commercialization, and Policy and Ethics.

The SBA is requesting comments on ANPRM (RIN 3245-AF22) for the following two items related to the Small Business Innovation Research (SBIR) Program: i.) a proposed rule change to small business size standards, referred to here as the 51% Rule, and ii.) a request for comments on an exclusion from affiliation for venture capital companies (VCC) in determining size requirements for small business eligibility.

It is BRTFN's understanding that the proposed 51% Rule may allow small businesses backed by one or more Venture Capital Companies (VCC) to participate in the SBIR program if the VCCs affiliated with the Small Business, and the Small Business itself, both are at least 51% owned and controlled by one or more individuals that are U.S. citizens or permanent resident aliens; that the interpretation of "individuals" refers to natural citizens and thus may exclude VCCs; and that the sum total of employees of the Small Business and all affiliates is not more than 500.

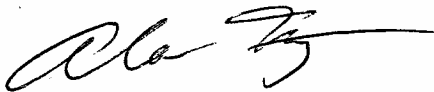
BRTFN recognizes the SBA's effort to rightly include VCC backed small companies in the SBIR program, however, both the 51% threshold and 500

employee restriction will adversely affect the participation of worthy small businesses. The requirement to ascertain the makeup of individuals having financial interests in VCC's can become a cumbersome and futile exercise given that 1.) some VC funds have significant investors that are large corporations that themselves are held by institutions such as mutual and pension funds, hence, determining the percent U.S. ownership of thousands if not tens of thousands of individuals would be extremely difficult; 2.) some worthy small businesses are backed by larger VC funds with even larger parent companies that when considered an affiliate, would exceed the 500 employee count; and 3.) the interpretation of *individuals* in the 51% Rule to exclude VCC affiliates disallows VCC majority owned small businesses from SBIR participation.

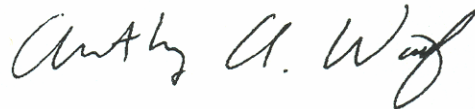
For these reasons, the SBA should provide an exclusion from affiliation with VCCs in determining small business eligibility, and the SBA should provide an exception to the 51% Rule to include VCCs in the definition of "individuals."

The intent of Congress in creating the SBIR program is founded in the Small Business Innovation Development Act which asserts the need to "attract private capital to commercialize the results of Federal research" (S. Rep. No. 97-194, 97th Cong., 1st Sess. 1981, reprinted in 1982 U.S.C.A.A.N. 512). Federal grant programs and venture funding are both critical elements in realizing commercial development for small business. Both are needed to maintain the U.S. competitive edge in the capital intensive, developing field of nanotechnology.


Signed BRTFN Subcommittee Chairs



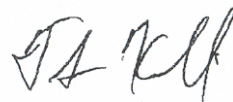
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